COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

In the Matter of the:

APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY FOR APPROVAL OF A NATURAL GAS PURCHASE HEDGING PLAN FOR THE 2003-2004 HEATING SEASON	)))))	CASE NO. 2003-00151

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THE UNION LIGHT, HEAT AND POWER COMPANY
HEDGING REPORT FOR THE PERIOD
APRIL 1, 2003 THROUGH MARCH 31, 2004

Pursuant to the Commission's Order dated June 19, 2003 in this proceeding, The Union Light, Heat and Power Company (ULH&P) respectfully submits its Hedging Report as ordered by the Commission.

Respectfully submitted,

THE UNION LIGHT, HEAT AND POWER COMPANY

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CERTIFICATE OF SERVICE

I certify that a copy of the foregoing pleading was served of the parties listed below by regular United States mail, postage prepaid, this 14th day of May, 2004..

John J. Finnigan, Jr.

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BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

Annual Report on Hedging Activity For April 1, 2003 – March 31, 2004

By
The Union Light, Heat and Power Company

May 15, 2004

The Vice President of Gas Operations, Manager of the Gas Commercial Operations, the Administrator of Gas Procurement and other personnel (Natural Gas Hedging Committee) met on a regular basis to review current market conditions for natural gas, short and long-term weather forecasts, gas industry trade publications, and price estimates to determine whether or not to enter into any hedging transactions. These meetings were scheduled at least monthly, but can occur more frequently depending on the season and market conditions. A brief summary of the decision made at each of these meetings, since the approval of the pilot program, is attached, along with the packet of information reviewed during each meeting. (See Attachment A)

A summary of the amounts hedged during the 12 months ended March 31, 2004 is shown below, followed by details of the factors influencing ULH&P's decision to enter into a hedging agreement each time.

Strike Date	Supplier	Type	Price Per Dth	Delivery Point *	Volume Dth/day	Month(s)	Total Volume
Summer 2003							
3/25/2003	Conoco	Cost Avg	[redacted]	CGT	[redacted]	Jun 03 – Oct 03	[redacted]
6/13/2003	CM&T	Fixed	[redacted]	CGT	[redacted]	Jul 03	[redacted]
6/13/2003	CM&T	Fixed	[redacted]	CGT	[redacted]	Aug 03	[redacted]
							[redacted]
Winter 2003/04							
4/30/2003	Conoco	Collar	[redacted]	CGT	[redacted]	Nov 03 – Mar 04	[redacted]
5/28/2002	Conoco	Cost Avg	[redacted]	Tenn	[redacted]	Nov 03 – Mar 04	[redacted]
6/13/2003	BP	Fixed	[redacted]	CGT	[redacted]	Dec 03 – Feb 04	[redacted]
7/1/2003	Anadarko	Fixed	[redacted]	Tenn	[redacted]	Dec 03 – Feb 04	[redacted]
7/29/2003	OneOk	Fixed	[redacted]	CGT	[redacted]	Nov 03 – Mar 04	[redacted]
9/4/2003	CM&T	Collar	[redacted]	CGT	[redacted]	Nov 03 – Mar 04	[redacted]
9/18/2003	OneOk	Fixed	[redacted]	CGT	[redacted]	Jan 04 – Mar 04	[redacted]
12/11/2003	CM&T	Fixed	[redacted]	CGT	[redacted]	Jan 04	[redacted]
							[redacted]
Summer 2004							
11/21/2003	CM&T	Cost Avg	[redacted]	CGT	[redacted]	Apr 04 – Oct 04	[redacted]
Winter 2004/05							
2/2/2004	Conoco	Fixed	[redacted]	CGT	[redacted]	Nov 04 – Mar 05	[redacted]

*Tenn = Tennessee Pipeline 500 Leg
CGT = Columbia Gulf South Louisiana Onshore

There were no transactional costs associated with any of these arrangements. When the natural gas is delivered the suppliers simply invoices ULH&P based on the hedged price. The portions of "base" gas hedged for each season are listed in the table below:

Season	Total Base Supply	Total Hedged	% Hedged
Summer 2003	[redacted]	[redacted]	[redacted]
Winter 2003/04	[redacted]	[redacted]	[redacted]
Summer 2004 (as of 3/31/04)	[redacted]	[redacted]	[redacted]
Winter 2004/05 (as of 3/31/04)	[redacted]	[redacted]	[redacted]

Summer 2003 Cost Averaging with ConocoPhillips - 3/25/2003

The approved Hedging Strategy states that ULH&P can hedge a portion of its base gas using a "cost averaging" method, where ULH&P would purchase a quantity of natural gas each day during a specified period with the price to be determined by averaging the NYMEX closing price for the winter or summer strip over an earlier specified period.

ULH&P informally sought bids from three suppliers for providing this service, and entered into the agreement with ConocoPhillips, which offered the lowest basis for [redacted] dth/day to be purchased at Columbia Gulf Onshore from June 1 through October 31, 2003. The price was set based on the average NYMEX closing price for those five months over the period April 1 through May 28, 2003. The end result was a price of [redacted]er dth (see Attachment B).

Winter 2003/04 Collar with ConocoPhillips – 4/30/2003

In April 2003, prices were starting to climb again, after coming down from the extremely high prices experienced at the end of February. The long-term weather forecast was calling for warmer than normal July and August and a colder winter. In addition, a more active than normal hurricane season was predicted, with a named storm forming in the Atlantic on April 20, 2003, over a month before the normal start of the hurricane season.

At the meeting on April 24, 2003, the Natural Gas Hedging Committee determined that there were many factors that could drive prices up, but little likelihood that prices would fall. However, while NYMEX prices were lower than PIRA's forecast, they were higher than CERA's or EIA's. Therefore, it was decided to enter into a collar with a ceiling of $7.00 rather than a fixed price. Floors were shopped with ConocoPhillips and Cinergy Marketing & Trading. Both suppliers offered a floor of [redacted] so on April 30, 2003, the agreement was made with ConocoPhillips for a no-cost collar of [redacted] for [redacted]dth/day to be delivered at Columbia Gulf Onshore from November 1, 2003 through March 31, 2004.

The EIA storage report released on April 24, 2003 indicated that as of April 18, 2003, total U.S. amount of gas in storage was 684 bcf (21% full), which was 891 bcf lower than the previous year and 573 bcf lower than the 5-year average. ULH&P's storage with Columbia Gas was approximately [redacted] full).

The table below compares the futures price data on April 30th with the most recently available forecasts from PIRA, CERA and EIA and the collared price that ULH&P agreed to pay ConocoPhillips. Since a single collar was locked in for all five months, a column showing the average price is provided for comparison purposes.

	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Average
Price Forecasts						
PIRA (4/23/03)	$6.20	$6.20	$6.20	$6.00	$5.50	$6.020
CERA (4/18/03)	$5.29	$5.61	$5.62	$5.57	$5.43	$5.504
EIA (4/8/03)	$4.52	$5.08	$5.15	$4.89	$4.54	$4.835
NYMEX (4/30/03)						
High	$5.620	$5.735	$5.825	$5.695	$5.475	$5.670
Low	$5.500	$5.610	$5.690	$5.570	$5.345	$5.543
Close	$5.620	$5.735	$5.825	$5.695	$5.475	$5.670
No Cost Collar (4/30/03)						
Floor						[redacted]
Ceiling						[redacted]

Winter 2003-04 Cost Averaging with ConocoPhillips - 5/28/2003

During the hedging meeting on May 28, 2003, the Hedging Committee decided to start the cost averaging for the winter of 2003-04. ULH&P informally sought bids from two suppliers for providing this service, and entered into the agreement with ConocoPhillips, which offered the lowest basis for [redacted] dth/day to be purchased at Tennessee 500 Leg from November 1, 2003 through March 31, 2004. The price was set based on the average NYMEX closing price for those five months over the period June 2 through September 30, 2003. The end result was a price of [redacted] per dth (see Attachment C).

Fixed prices with CM&T and BP – June 13, 2003

When the Hedging Meeting on June 4, 2003 was held, the NYMEX price for the following winter was over $[redacted] per dth. This seemed too high compared to current forecasts, even though there were indications that prices could continue to increase. It was decided that the market would be closely monitored and a small quantity of fixed price gas locked-in if prices fell to the low $6.00's.

On June 12, 2003, winter NYMEX prices fell around $0.40/dth, then leveled out on the 13th. This brought the price for the winter months of December 2003 though February 2004 into the $6.10 - $6.20 range, with indications that the dip in prices could be short lived. A fixed price for December 1, 2003 through February 29, 2004 was locked in with BP. Since nearer term months had declined even further (around $0.60 /dth), fixed prices were also locked in for July and August 2003 with CM&T.

The EIA storage report released on June 12, 2003 indicated that as of June 6, 2003, total U.S. amount of gas in storage was 1,324 bcf (41% full), which was 718 bcf lower than the previous year and 446 bcf lower than the 5-year average. ULH&P's storage with Columbia Gas was approximately [redacted] ([redacted] full).

The table below compares the futures price data for June 13th with the most recently available forecasts from PIRA, CERA and EIA and the locked in price that ULH&P agreed to pay BP for base gas to be delivered December 2003 through February 2004. Also included is the same data for July and August 2003 with the locked in price that ULH&P agreed to pay CM&T. The fixed price was based on delivery to Columbia Gulf South Louisiana Onshore.

	Dec 03	Jan 04	Feb 04	Average	Jul 03	Aug 03
Price Forecasts						
PIRA (5/23/03)	$6.20	$6.20	$6.00	$6.133	$6.70	$6.70
CERA (5/15/03)	$5.61	$5.62	$5.57	$5.600	$5.38	$5.31
EIA (6/6/03)	$5.96	$6.39	$6.30	$6.217	$5.56	$5.69
NYMEX (6/13/03)						
High	$6.18	$6.29	$6.21	$6.227	$5.700	$5.800
Low	$6.06	$6.16	$6.09	$6.102	$5.470	$5.570
Close	$6.17	$6.29	$6.21	$6.225	$5.675	$5.766
Fixed Prices (6/13/03)						
BP ([redacted]day 12/1/03-2/29/04)				[redacted]		
CM&T ([redacted]day 7/1/03-8/31/03)					[redacted]	[redacted]

<u>Fixed price with Anadarko – July 1, 2003</u>

When the Hedging Meeting on June 24, 2003 was held, the NYMEX price for December 2003 – February 2004 was around [redacted]/dth, the same price which ULH&P had recently locked in. Therefore, ULH&P decided to hold off on any additional hedging to see which direction the market was going to move. Once again, the market would be closely monitored with intention of locking in a small quantity of fixed price gas if prices moved substantially in either direction. During the last few days of June 2003, winter NYMEX prices fell around $0.40/dth, so a fixed price for December 1, 2003 through February 29, 2004 was locked in with Anadarko at [redacted] per dth on July 1st.

The EIA storage report released on June 26, 2003 indicated that as of June 20, 2003, total U.S. amount of gas in storage was 1,565 bcf (49% full), which was 653 bcf lower than the previous year and 370 bcf lower than the 5-year average. ULH&P's storage with Columbia Gas was approximately [redacted] ([redacted]% full).

The table below compares the futures price data for July 1st with the most recently available forecasts from PIRA, CERA and EIA and the locked in price that ULH&P agreed to pay Anadarko for base gas to be delivered December 2003 through February 2004 at Tennessee 500 leg.

	Dec 03	Jan 04	Feb 04	Average
Price Forecasts				
PIRA (6/25/03)	$6.30	$6.30	$6.00	$6.200
CERA (6/17/03)	$5.61	$5.62	$5.57	$5.600
EIA (6/6/03)	$5.96	$6.39	$6.30	$6.217
NYMEX (7/1/03)				
High	$5.77	$5.85	$5.80	$5.807
Low	$5.69	$5.80	$5.73	$5.738
Close	$5.75	$5.85	$5.78	$5.793
Fixed Price (7/1/03)				
Anadarko ([redacted]/day 12/1/03-2/29/04)				[redacted]

Fixed price with OneOk – July 29, 2003

Price continued to fall based on mild summer temperatures, little tropical storm activity and the continued improvement in the EIA storage reports. However, forecasts called for a warmer than normal August which could take natural gas away from storage injections to generate electricity in gas fired power plants, and longer term forecasts were still predicting a colder than normal winter. Since it seemed that prices could start climbing again soon, the Hedging Committee decided to lock in additional winter supply to reach the maximum [redacted] by the end of July per the approved hedging strategy.

The EIA storage report released on July 25, 2003 indicated that as of July 18, 2003, total U.S. amount of gas in storage was 1,949 bcf (61% full), which was 537 bcf lower than the previous year and 286 bcf lower than the 5-year average. ULH&P's storage with Columbia Gas was approximately [redacted] full).

The table below compares the futures price data for July 29th with the most recently available forecasts from PIRA, CERA and EIA and the locked in price that ULH&P agreed to pay OneOk for base gas to be delivered November 2003 through March 2004 at Columbia Gulf South Louisiana Onshore.

	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Average
Price Forecasts						
PIRA (6/25/03)	$6.20	$6.30	$6.30	$6.00	$5.60	$6.080
CERA (7/18/03)	$5.29	$5.61	$5.62	$5.570	$5.43	$5.504
EIA (7/8/03)	$5.10	$5.20	$5.33	$5.19	$4.61	$5.085
NYMEX (7/29/03)						
High	$4.96	$5.19	$5.32	$5.29	$5.19	$5.190
Low	$4.90	$5.15	$5.28	$5.24	$5.14	$5.141
Close	$4.91	$5.15	$5.28	$5.25	$5.17	$5.150
Fixed Price (6/13/03)						
OneOk ([redacted]/day 11/1/03-3/31/04)						[redacted]

Winter 2003/04 Collar with CM&T – 9/4/2003

In early September 2003, NYMEX prices for the winter were staying in the low $5.00 range, around where the most recent hedging had already locked in a fixed price. Although prices were generally trending downward, a cold October or increased hurricane activity could send prices up rapidly. At the meeting on September 3, 2003, the Natural Gas Hedging Committee decided to lock in another collar to take advantage of the downward trend while still protecting ULH&P from a potential steep increase in prices.

Occidental, CM&T and Anadarko were contacted to get quotes for a no-cost collar with a ceiling of $6.50/dth to be delivered to Columbia Gulf Onshore from November 1, 2003 through March 31, 2004. Floors ranged from [redacted] to [redacted], so ULH&P locked in the collar for [redacted] day with CM&T, which had provided the low bid of [redacted] th.

The EIA storage report released on September 4, 2003 indicated that as of August 29, 2003, total U.S. amount of gas in storage was 2,389 bcf (75% full), which was 392 bcf lower than the previous year and 175 bcf lower than the 5-year average. ULH&P's storage with Columbia Gas was approximately [redacted] f [redacted] full).

The table below compares the futures price data on April 30th with the most recently available forecasts from PIRA, CERA and EIA and the collared price that ULH&P agreed to pay CM&T. Since a single collar was locked in for all five months, a column showing the average price is provided for comparison purposes.

	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Average
Price Forecasts						
PIRA (8/26/03)	$4.50	$4.70	$4.90	$4.80	$4.60	$4.700
CERA (8/18/03)	$4.65	$4.99	$5.64	$5.62	$5.57	$5.294
EIA (8/6/03)	$4.80	$5.01	$5.60	$4.31	$5.04	$5.150
NYMEX (9/4/03)						
High	$5.09	$5.34	$5.50	$5.44	$5.35	$5.343
Low	$4.86	$5.15	$5.30	$5.32	$5.20	$5.166
Close	$5.05	$5.29	$5.46	$5.41	$5.31	$5.305
No Cost Collar (9/4/03)						
Floor						[redacted]
Ceiling						[redacted]

Fixed price with OneOk – September 18, 2003

By September NYMEX prices for the winter of 2003-04 were at their lowest point since the beginning of the summer. Since the market was assuming that storage levels would exceed the required 3 TCF by the beginning of the withdraw season, additional strong injections would likely have little impact. Weather forecasts were calling for a slow start to winter, so a fixed price was locked in for the last three months, January – March 2004.

The EIA storage report released on September 18, 2003 indicated that as of September 12, 2003, total U.S. amount of gas in storage was 2,588 bcf (81% full), which was 336 bcf lower than the previous year and 120 bcf lower than the 5-year average. ULH&P's storage with Columbia Gas was approximately [redacted] ([redacted] full).

The table below compares the futures price data for September 18th with the most recently available forecasts from PIRA, CERA and EIA and the locked in price that ULH&P agreed to pay OneOk for [redacted] th/day to be delivered January through March 2004 at Columbia Gulf Onshore for [redacted]/dth.

	Jan 04	Feb 04	Mar 04	Average
Price Forecasts				
PIRA (8/26/03)	$4.90	$4.80	$4.60	$4.767
CERA (8/18/03)	$5.64	$5.62	$5.57	$5.610
EIA (9/8/03)	$4.60	$4.17	$3.78	$4.183
NYMEX (9/18/03)				
High	$5.28	$5.24	$5.15	$5.223
Low	$5.16	$5.15	$5.07	$5.127
Close	$5.21	$5.17	$5.08	$5.153
Fixed Price (9/18/03)				
OneOk [redacted]/day 1/1/04-3/31/04)				[redacted]

Summer 2004 Cost Averaging with CM&T - 11/21/2003

At the hedging meeting on November 17, 2003 the Hedging Committee decided to start the cost averaging for the summer of 2004 earlier than it has in the past in order to spread the averaging period over a longer time. This would also enable ULH&P to take delivery throughout the entire summer rather than just the latter half. CM&T offered a basis of [redacted] dth for [redacted]/day to be purchased at Columbia Gulf Onshore from April 1 through October 31, 2004. For the previous summer, ULH&P paid ConocoPhillips a basis of [redacted] th, so ULH&P agreed to the deal with CM&T. The price was set based on the average NYMEX closing price for December 1, 2003 thorugh March 29, 2004. The end result was a price of [redacted] per dth (see Attachment D).

Fixed price with CM&T – December 11, 2003

In December 2003 the NYMEX price for January 2004 became extremely volatile. The difference between the high and low was as high as $0.80/dth in a single day (12/4/03). It was decided to bring ULH&P's hedged portion of base gas for January up to [redacted] with a fixed price as close as possible to what would be used in the EGC calculation, which would be determined on December 11th based on the NYMEX closing price for January 2004. Therefore, ULH&P locked in a fixed price of [redacted]dth with CM&T fo[redacted]/day to be delivered to Columbia Gulf Onshore throughout the month of January 2004.

The EIA storage report released on December 11, 2003 indicated that as of December 5, 2003, total U.S. amount of gas in storage was 2,984 bcf (93% full), which was 190 bcf higher than the previous year and 79 bcf higher than the 5-year average. ULH&P's storage with Columbia Gas was approximately [redacted]full).

The table below compares the futures price data for December 11th with the most recently available forecasts from PIRA, CERA and EIA and the locked in price that ULH&P agreed to pay CM&T for[redacted]day to be delivered in January 2004.

	Jan 04
Price Forecasts	
PIRA (11/24/03)	$4.40
CERA (11/19/03)	$5.34
EIA (12/8/03)	$4.56
NYMEX (12/11/03)	
High	$6.95
Low	$6.36
Close	$6.62
Fixed Price (12/11/03)	
CM&T ([redacted]/day 1/1/04-1/31/04)	[redacted]

Winter 2004-05 Fixed price with ConcoPhillips – February 2, 2004

Indications in mid January were that prices for the next winter would fall from their then current level of $5.72/dth. The Hedging Committee decided to closely monitor NYMEX and take advantage of any market downturn if prices for the winter 2004-05 fell into the $5.40's. Since the start of next winter was still 9 months away, only a small volume would be fixed (around 5%). On Friday, January 30th the NYMEX winter strip closed at $5.49. On Monday morning, February 2nd ULH&P struck a deal with ConocoPhillips for [redacted]day from November 1, 2004 through March 31, 2005 to be delivered at Columbia Gulf Onshore for[redacted]dth. This represents approximately[redacted] of ULH&P's base winter supply requirements.

The EIA storage report released on January 29, 2004 indicated that as of January 23, 2003, total U.S. amount of gas in storage was 2,063 bcf (64% full), which was 334 bcf higher than the previous year and 163 bcf higher than the 5-year average. ULH&P's storage with Columbia Gas was approximately[redacted]bcf ([redacted]full).

The table below compares the futures price data for February 2nd with the most recently available forecasts from PIRA, CERA and EIA and the locked in price that

ULH&P agreed to pay ConcoPhillips for base gas to be delivered November 2004 through March 2005 at Columbia Gulf South Louisiana Onshore.

	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Average
Price Forecasts						
PIRA (1/26/04)	$4.90	$5.60	$5.60	$5.40	$5.20	$5.340
CERA (1/16/04)	$4.50	$4.80	$5.75	$5.05	$4.82	$4.984
EIA (1/7/04)	$5.28	$5.41	$5.57	$5.18	$4.51	$5.190
NYMEX (2/2/04)						
High	$5.35	$5.53	$5.67	$5.63	$5.46	$5.529
Low	$5.27	$5.46	$5.58	$5.58	$5.40	$5.454
Close	$5.35	$5.53	$5.67	$5.63	$5.46	$5.529
Fixed Price (2/2/04)						
ConocoPhillips ([redacted]th/day 11/1/04-3/31/05)						[redacted]

Effect of Hedging Program on Gas Costs

The effect of the hedging activity on gas cost can be determined by comparing the price paid for any hedged gas with the published Inside FERC First of Month Index (FOMI) for the delivery point where physical delivery of the hedged gas was received (Columbia Gulf Onshore or Tennessee 500 Leg). The hedged price includes the basis from Henry Hub to the point of delivery. This analysis shows that for the 12 months ended March 31, 2004 gas costs were $0.9 million higher when comparing the hedged price with the FOMI at the time of physical delivery than they would have been if no hedging had taken place. The following table lists each package of hedged gas and the impact on the total gas cost resulting from that hedge.

Summer Season 2003

Supplier	Type	Dth/day	Total Dth	Receipt Point	Hedged Price $/dth	Inside FERC FOMI $/dth	Cost Increase/ (Savings)
June 2003							
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	CGT	[redacted]	$5.92	[redacted]
July 2003							
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	CGT	[redacted]	$5.33	[redacted]
CM&T	Fixed	[redacted]	[redacted]	CGT	[redacted]	$5.33	[redacted]
August 2003							
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	CGT	[redacted]	$4.64	[redacted]
CM&T	Fixed	[redacted]	[redacted]	CGT	[redacted]	$4.64	[redacted]
September 2003							
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	CGT	[redacted]	$4.89	[redacted]
October 2003							
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	CGT	[redacted]	$4.41	[redacted]
Season Total							[redacted]

Winter Season 2003-04

Supplier	Type	Dth/day	Total Dth	Receipt Point	Hedged Price $/dth	Inside FERC FOMI $/dth	Cost Increase/ (Savings)
November							
Conoco	Collar ($5.00-7.00)	[redacted]	[redacted]	CGT	[redacted]	$4.4200	[redacted]
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	Tenn	[redacted]	$4.3800	[redacted]
OneOK	Fixed	[redacted]	[redacted]	CGT	[redacted]	$4.4200	[redacted]
CM&T	Collar ($4.75-6.50)	[redacted]	[redacted]	CGT	[redacted]	$4.4200	[redacted]
December							
Conoco	Collar ($5.00-7.00)	[redacted]	[redacted]	CGT	[redacted]	$4.8200	[redacted]
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	Tenn	[redacted]	$4.8200	[redacted]
BP	Fixed	[redacted]	[redacted]	CGT	[redacted]	$4.8200	[redacted]
Anadarko	Fixed	[redacted]	[redacted]	Tenn	[redacted]	$4.8200	[redacted]
OneOK	Fixed	[redacted]	[redacted]	CGT	[redacted]	$4.8200	[redacted]
CM&T	Collar ($4.75-6.50)	[redacted]	[redacted]	CGT	[redacted]	$4.8200	[redacted]
January							
Conoco	Collar ($5.00-7.00)	[redacted]	[redacted]	CGT	[redacted]	$6.1300	[redacted]
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	Tenn	[redacted]	$6.0800	[redacted]
BP	Fixed	[redacted]	[redacted]	CGT	[redacted]	$6.1300	[redacted]
Anadarko	Fixed	[redacted]	[redacted]	Tenn	[redacted]	$6.0800	[redacted]
OneOK	Fixed	[redacted]	[redacted]	CGT	[redacted]	$6.1300	[redacted]
CM&T	Collar ($4.75-6.50)	[redacted]	[redacted]	CGT	[redacted]	$6.1300	[redacted]
OneOK	Fixed	[redacted]	[redacted]	CGT	[redacted]	$6.1300	[redacted]
CM&T	Fixed	[redacted]	[redacted]	CGT	[redacted]	$6.1300	[redacted]
February							
Conoco	Collar ($5.00-7.00)	[redacted]	[redacted]	CGT	[redacted]	$5.7500	[redacted]
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	Tenn	[redacted]	$5.7000	[redacted]
BP	Fixed	[redacted]	[redacted]	CGT	[redacted]	$5.7500	[redacted]
Anadarko	Fixed	[redacted]	[redacted]	Tenn	[redacted]	$5.7000	[redacted]
OneOK	Fixed	[redacted]	[redacted]	CGT	[redacted]	$5.7500	[redacted]
CM&T	Collar ($4.75-6.50)	[redacted]	[redacted]	CGT	[redacted]	$5.7500	[redacted]
OneOK	Fixed	[redacted]	[redacted]	CGT	[redacted]	$5.7500	[redacted]
March							
Conoco	Collar ($5.00-7.00)	[redacted]	[redacted]	CGT	[redacted]	$5.1600	[redacted]
Conoco	Fixed (Cost Avg.)	[redacted]	[redacted]	Tenn	[redacted]	$5.0800	[redacted]
OneOK	Fixed	[redacted]	[redacted]	CGT	[redacted]	$5.1600	[redacted]
CM&T	Collar ($4.75-6.50)	[redacted]	[redacted]	CGT	[redacted]	$5.1600	[redacted]
OneOK	Fixed	[redacted]	[redacted]	CGT	[redacted]	$5.1600	[redacted]
Season Total							[redacted]

Due to the mechanics of the Gas Cost Adjustment Clause (GCA), the effect of the hedging program on the gas cost portion of customer's bills will occur in stages. The Expected Gas Cost (EGC) component of each GCA included estimated gas costs based on a combination of hedged gas and gas at estimated market prices. Absent the hedging program, the EGC would have been calculated on market prices alone. The Actual Adjustment (AA) component of each GCA also includes the effect of the hedging program reflected in the actual gas costs, which are compared to GCA revenues to calculate the AA.

When the various EGCs were calculated, quarterly prior to December 2003 and monthly thereafter, the forecasted natural gas requirements were priced out based on the weighted average of known hedged prices and the NYMEX futures price on the day that the calculation was performed. To determine the impact of the hedging program on the EGC, the hedging transactions were removed from the original calculations to determine what EGC would have been filed if no hedging had taken place. This effect may differ from the ultimate impact on the GCA once actual costs are known and flow through the AA.

The following table shows the effect that hedging had on each separate GCA rate for the 12 months ending March 31, 2004. Prior year's hedging programs continue to effect the AA portion of the GCA, but will be ignored for this analysis. Likewise, gas costs during the 12 months ended March 31, 2004 will continue to affect the Actual Adjustment portion of the GCA through August 31, 2005. A negative sign means that the rate was decreased due to the hedging program, and a positive indicates that the rate was increased. Rates are in dollars per mcf.

Month	Impact on EGC	Impact on AA	Impact on GCA
April 2003	---	---	---
May 2003	---	---	---
June 2003	-$0.134	---	-$0.134
July 2003	-$0.134	---	-$0.134
August 2003	-$0.134	---	-$0/134
September 2003	+$0.165	---	+$0.165
October 2003	+$0.165	---	+$0.165
November 2003	+$0.165	---	+$0.165
December 2003	+$0.176	+$0.031	+$0.207
January 2004	-$0.238	+$0.031	+$0.269
February 2004	-$0.021	+$0.031	+$0.052
March 2004	-$0.006	+$0.032	+$0.038

To determine the ultimate effect on the price paid by customers subject to the GCA, the total difference in gas cost due to the hedging program was divided by the annual total Mcf used in the calculation of the Expected Gas Cost (EGC) as part of the GCA filing effective March 1, 2004. Based on this calculation, GCA customers will pay

approximately [redacted] Mcf more than they would have absent the hedging program for natural gas purchased between April 1, 2003 and March 31, 2004.
[redacted] / [redacted] = [redacted]

Effect of Hedging Program on Volatility

The hedging programs increased costs during the 2001-02 and the 2003-04 winters when market prices were relatively low. The hedging program during the 2002-03 winter decreased costs when market prices were high. This provides prima facie evidence that the hedging program meets its stated goal of reducing the volatility in gas prices and providing some protection against extremely high prices. Based on a more statistical definition of volatility, the hedging program reduced the standard deviation of the average commodity cost of gas by $0.147/dth over the 12 months ended March 31, 2004.

	Actual Average Commodity Cost of Gas (Includes Hedging)				Estimated Average Commodity Cost of Gas Without Hedging		
	Commodity Cost	Dth	Wgt. Avg.	Cost/ (Savings)	Commodity Cost	Dth	Wgt. Avg.
Apr-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
May-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Jun-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Jul-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Aug-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Sep-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Oct-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Nov-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Dec-03	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Jan-04	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Feb-04	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mar-04	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Standard Deviation			[redacted]				[redacted]
Reduction in Standard Deviation			[redacted]				[redacted]

Weather Analysis

The higher natural gas prices experienced during the winter of 2002-03 were a direct result of much colder than normal temperatures. In contrast, although there was some monthly fluctuation in temperature deviations from normal, the winter of 2003-04 turned out to be about 1% warmer than normal. The absence of sustained cold weather kept prices from peaking, and resulted in a gradual decrease in prices throughout the winter. The table below lists heating degree days for November 2003 through March 2004 compared to normal.

	Nov	Dec	Jan	Feb	Mar	Total
Normal Heating Degree Days*	621	907	1,069	855	662	4,114
2003/2004						
Heating Degree Days	503	923	1,148	895	605	4,074
%Colder (Warmer) than Normal	(19%)	2%	7%	5%	(9%)	(1%)

* Based on 10-year average 1990-1999.

Summary

Although the normal weather experienced in the 2003-04 winter season resulted in lower prices that caused the hedging plan to increase gas costs, the hedging strategy was in place to provide protection against extreme winter prices. The hedging program was successful in reducing the impact of volatility on the GCA. During the 12 months ended March 31, 2004, some months realized savings due to the hedging program, while others saw cost increases. No purchasing strategy or plan could guarantee savings every month, especially when weather, national storage levels, drilling activity and the economy are constantly applying pressure to natural gas prices. The hedging plan did achieve its stated goal of reducing volatility and insulating GCA customers from extreme price increases.